

Minutes of the
Board of Water and Natural Resources Meeting
Lewis & Clark Rural Water System Meeting Room
401 East 8th Street, Suite 306
Sioux Falls, SD

March 4, 2004
1:00 p.m. CST

CALL MEETING TO ORDER: The meeting was called to order by Chairman Gregg Greenfield. A quorum was present.

BOARD MEMBERS PRESENT: Gregg Greenfield, John Loucks, Don Bollweg, Gene Jones, Jr., and Brad Johnson.

BOARD MEMBERS ABSENT: Dale Kennedy and Don Rounds.

OTHERS PRESENT: See attached attendance sheet.

APPROVE AGENDA: Motion by Bollweg, seconded by Jones, to approve the agenda. Motion carried.

LEGISLATIVE UPDATE: Dave Templeton provided an overview of legislation that the department tracked during the 2004 session.

SB 203 is the Omnibus bill. It passed both houses unanimously and followed the board's November 2003 funding recommendations. Three sections were added to the bill to help staff: (1) \$100,000 from Environment and Natural Resources fee fund for TMDL work; (2) \$655,000 expenditure authority for water quality projects in the Clean Water SRF program, which includes \$580,000 to help producers design concentrated animal feeding operations; (3) \$160,000 of expenditure authority for Drinking Water set-asides for small community planning grants.

SB 112 requires state agencies to consider the impact on small business when promulgating rules.

SB 179 repeals SDCL 5-28, the lease-leaseback bill.

SB 217 authorizes the Board of Regents to construct an anaerobic digester and to apply for federal funds up to \$1,750,000.

HB 1014 reduces the percentage of owners required to ratify an oil and gas unit from 75 percent to 60 percent.

HB 1157 and 1175 both address Brownfields, which are properties that were formerly commercial or industrial sites that either have potential for contamination or do have contamination. Under the terms of these bills, properties will be assessed and cleaned of contamination. BWNR will administer the program.

HB 1201 authorizes BWNR to sell bonds up to \$500,000,000 in total aggregate for water projects along the Missouri River.

HCR 1017 is a joint resolution urging the United States Congress to provide sufficient funding for South Dakota water projects-Mm Wiconi, Mid-Dakota, West River/Lyman-Jones and Perkins County.

SERIES 2004 BOND ISSUE: Jim Feeney introduced the financial team charged with analyzing the feasibility of issuing new bonds for the SRF programs and briefly summarized steps the department has taken in the past year.

LEVERAGING THE DRINKING WATER SRF AND DEMAND ON THE PROGRAM: Mike Perkovich presented information on the amount of money awarded in Clean Water SRF funds since 1990 and estimated the Clean Water SRF demand in 2004-2006 at \$46 million. Sioux Falls' Capital Improvement Plan indicates borrowing more than \$24 million. The department estimated a demand of approximately \$70 million on the Drinking Water SRF program for the next three years. Aberdeen is still due \$7.3 million in 2004, Sioux Falls has identified at least \$7.8 million, and several other communities will be ready for another \$6 million to \$7 million. The demand is estimated at \$18.4 million in 2005 and \$24.7 million in 2006.

RATES: Mr. Feeney noted that the administrative rules for both programs require the board to consider the current market rates, the rates secured on our financing, and demand on the program when setting SRF rates. EPA's only guidance is that rates be set below current market rates. Mr. Feeney reviewed the interest rates and administrative fees charged throughout the history of both SRF programs. He also noted that the interest rates, including administrative surcharge fees, in other Region VIII states range from 2.5 percent to 4.1 percent. Rural Development charges between 4.5 percent and 4.625 percent.

PROGRAMMATIC ADVANTAGES OF REFUNDING/ADVANCE REFUNDING AND CROSS-COLLATERALIZATION: Bruce Bonjour stated that flexibility can likely be achieved with cross-collateralization and stronger bond credit, and that programmatic benefits can be obtained with modest costs in the long run.

CASH FLOW MODELS: Katherine Kardell, managing director with Public Financial Management (PFM) in Minneapolis, noted that PFM was hired to look comprehensively at the existing Clean Water and Drinking Water SRF programs. PFM developed several financing scenarios to determine the impact of refunding and/or issuing new money bonds to allow the existing bond indenture to be amended and to determine the financial impact on the

programs of reducing interest rates. Four Clean Water SRF scenarios and two Drinking Water SRF scenarios were created.

Clean Water SRF program

Scenario 1 assumes (1) \$46 million in new loans would be originated from FY 2004 through FY 2006, and (2) the loan interest rate would stay the same (2.5 percent base plus 1.0 percent administrative fee). Loans would be funded from three sources: (1) remaining state match funds, (2) federal capitalization grants, and (3) the cumulative excess subaccount. No new bonds nor state match would be issued.

Scenario 2 would be the same as Scenario 1 except that a portion of the new loans (\$26 million of the \$46 million total) would assume lower interest rates.

Scenario 3 advocates refunding a sufficient amount of bonds, \$13,330,000, in order to develop a new master trust indenture. The loan interest rate is the current rate for \$46 million in new loans. Loans would be funded in the same way as Scenario 1, no new money bonds would be issued, and only two-thirds of the existing bonds would be refunded.

Scenario 4 is a variation of Scenario 3. The cumulative excess subaccount would be eliminated as a potential source for debt service repayment on the bonds.

PFM explained several measurements of fiscal impact. Average debt service coverage is the mean coverage for state match bonds and mean coverage for leveraged bonds. Default tolerance is the ability of the loan program to withstand payment defaults by borrowers and still be able to pay debt service on bonds. The Cumulative Excess Subaccount contains the balance of funds after all bonds have been paid. Net present value savings is debt service savings discounted at the arbitrage yield of the refunding bonds.

Ms. Kardell stated that debt service coverage under Scenarios 1 through 4 range from 20.8X to 24.54X. PFM believes that refunding will not adversely affect the program financially. However, eliminating the cumulative excess subaccount as a source for debt service repayment has not yet been approved by bond counsel or the EPA.

Drinking Water SRF program

Scenario 5 assumes \$71 million of new loans in FY 2004-2006 at the current interest rates, funded from state match funds, transfers from the Clean Water SRF program, FY 2004-2006 federal capitalization grants, some portion of money projected to be available in the cumulative excess subaccount (lowering the size of the bond issue), and leveraged bond proceeds. Bonds in this scenario would be used to fund state match as well as leveraged components.

Scenario 6 is the same as Scenario 5 but with lower interest rates.

Ms. Kardell stated that debt service coverage in the Drinking Water scenarios would range from 5.78X to 5.92X.

PFM recommended (1) refunding the necessary Clean Water bonds to amend the existing indenture, (2) issuing new money bonds for the Drinking Water program (both state match and leveraged) (3) transferring available funds between the two programs (cross-collateralization), (4) possibly depleting the cumulative excess subaccount, and (5) blending the two indentures into a single indenture.

PFM further recommended (1) pursuing a credit rating upgrade from Moody's, (2) consider adding a second credit rating, (3) bidding the assets of the 2001 bond issues which currently don't have a guaranteed investment contract (GIC) in place, (4) keeping the higher interest rate GICs in place and investing monies over the cap in something with a longer term rate, and (5) creating a policy for the trustee to follow when drawing money from cumulative excess subaccounts.

APPOINTMENT OF TEMPORARY SECRETARY: Motion by Greenfield, second by Bollweg, to nominate Brad Johnson to serve as temporary secretary to sign loan documents. Motion carried.

UNDERWRITER PROCUREMENT: Motion by Loucks, seconded by Bollweg, to approve the distribution of the Request for Proposals (**UP**) for underwriting services. Motion carried.

PROPOSED SCHEDULE: The RFP for underwriter services will be released on March 5 and responses are due by March 19. A final bond issue size will be determined the week of May 24, and a special board meeting will be scheduled the week of May 31 to authorize proceeding with pricing and signing of bond purchase agreements. Bonds will be priced the week of June 7 and closed the week of June 21.

EPA'S ROLE: EPA has been notified and will be copied on correspondence.

CONTRACT AMENDMENTS: Mr. Feeney stated that engagement letters and proposals were received from The First National Bank in Sioux Falls and PFM and that no action is necessary at this time.

NONPOINT SOURCE PROJECTS FUNDED BY THE CLEAN WATER SRF: At this time Jay Gilbertson joined via teleconference. Mr. Feeney briefly recapped models discussed at the January 2004 meeting. The Ohio model would lower interest rates and keep the debt service the same, thus allowing a community to borrow additional money for watershed restoration activities. With the Missouri model, money would be loaned to the South Dakota Value Added Finance Authority to re-loan to producers animal waste management systems. The Montana model loans money for irrigation efficiency improvements

Board of Water and Natural Resources
March 4, 2004 Meeting Minutes

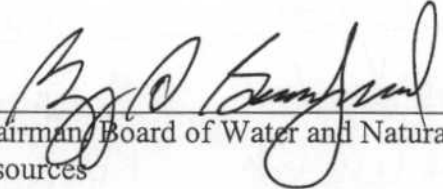
Mr. Feeney stated that EPA is aware of and supportive of the general concepts of the plan.

RULE CHANGES: Mr. Perkovich discussed the rule changes that will be presented at the March 25-26 meeting to broaden the eligible uses of Clean Water SRF funds for nonpoint source projects and to add language addressing interim financing to both the Clean Water and Drinking Water SRF programs.


ADJOURN: Chairman Greenfield declared the meeting adjourned.

Approved this 25th day of March, 2004

(SEAL)


Chairman, Board of Water and Natural
Resources

ATTEST:


Secretary, Board of Water and Natural
Resources

BOARD OF WATER AND NATURAL RESOURCES
ATTENDANCE SHEET

DATE MARCH 4, 2004

LOCATION: LEWIS & CLARK RWS BOARD ROOM - SIOUX FALLS

Name (PLEASE PRINT)	Address	Representing
Mike Perkovich	Pierre	DEXIR
David Ruhnke	Pierre	DENR
David Templeton	Pierre	DENR
Jim Feeney	Pierre	DENR
Elayne Lande	Pierre	DENR
Katherine Kardell	Minneapolis	PFM
Jessica Cameron	Minneapolis	PFM
Kristi Wunderschick	Sioux Falls	1st Natl Bank
Bruce A. Bonjour	Chicago	Perkins Coie LLP
Senator Frank Knecht	Scotland ^{Water Board #19} ^{Leg Oversight}	Senate
Troy Larson	SF	Lewis & Clark BWS
Lyle Johnson	Sioux Falls	City of Sioux Falls
Kevin Smith	Sioux Falls	City of Sioux Falls
Dean Nielsen	Sioux Falls	City of Sioux Falls
Tom Huber	Sioux Falls	City of Sioux Falls
Dale Hargens	Miller	Legislative Oversight
Scott Deering	Sioux Falls	AG